

СОЦИАЛЬНАЯ РАБОТА, ПРОБЛЕМЫ СЕМЬИ, ЗДОРОВЬЯ В СОВРЕМЕННОМ ОБЩЕСТВЕ

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THINKING ABOUT THE 2ND PILLAR OF CZECH PENSIONS SYSTEM

1. Introduction

The 2nd pillar of the pension system has come to existence in January 2013. It is a funded pillar, with funds run by private pension companies. The premium consists of 3% of gross wage redirected from the pay-as-you-go pillar (the 1st pillar) and additional 2% of gross wages. The 2nd pillar is designed for people aged 35 or younger, and some insignificant exceptions are made.

The reform looks well-meant, and it is interesting to examine it from the standpoint of a critic; fortunately, it proves to have several shortcomings.

2. The Essential Pay as You Go and It's Sustainability.

The Czech social security system is basically a pay-as-you-go⁶. The pay-as-you-go (PAYG) social security system is essentially borrowing from the young generation to pay pensions to the old generation. The debt owed to the present young generation then repaid from the borrowings from the next generation, and so on. Only the very first generation to receive pensions has had to pay nothing to the system. In a simple overlapping generations setting with zero population growth, PAYG produces a Pareto improvement shifting consumption from every young generation to a previous generation, because the very first generation benefits and no other generation is harmed [7].

The Czech PAYG pensions are defined benefit, which means that the pensions paid to beneficiaries are determined from their earnings during the

6 There also exists the 3d pillar of the pension system. This one is not significant though, see [2].

period of economic activity, and are assumed to be known beforehand. This has an important implication for the public budget: the liability of the government towards the seniors are legally determined. In case that the outgoes of the social security system exceed its income, the outgoes will be financed from other sources.

The differences of outgoes and incomes in the PAYG defined benefit pension system depend first, on the number of seniors receiving benefits, second, the amount of economically active population, and third, on the size of contributions. The first two determinants may be represented by a dependence rate, that is given by the ratio of population of age 65 and higher (potentially economically dependent) to the population aged from 15 to 64 (potentially economically active)⁷. The contributions of young workers are a legally set percentage of their wages, so the amount contributed by the young generation is dependent on their productivity of labor. This implies that for current PAYG system to accumulate no debt it is necessary for productivity of labor to keep pace with the dependence rate.

The observed increase in average life expectancy and long-run decline of fertility rates in European countries results in rising economic dependence rate [3, 4]. This has caused concerns about the sustainability of the pension systems in Europe in general [9], and the PAYG system in the Czech Republic in particular have been claimed to be unsustainable under the conditions prior to the introduction of the 2nd pillar of the pension system^[2]. In 2010, the debt of PAYG system was projected to exceed the Czech GDP in 2065^[2].

According to economic theory, as any public debt, the debt of social security system has unfavorable economic consequences due to creating additional demand for capital and causing upward pressure on interest rates thus "crowding out" private investment and potentially influencing aggregate demand in the economy.

7 Dependence rate does not account for the age of retirement stated by law, but generally this one is not necessarily matched with the average actual age of retirement, which vary vastly from country to country, see [5] Graph 7. Dependence rate neither accounts for the average actual age of retirement, neither it distinguishes the labor force from the population aged from 15 to 65; the rate is rather to be thought of as a proxy for a ration of retired population to the economically active population.

Also loss of credibility is possible, which would make financing the social security system even more costly, which may lead to collapse of the system, hurting the pensioners' well-being. For those reasons the pensions system needs to be kept sustainable.

3. The 2nd Pillar of the Pension System.

There are several ways to tackle the problem of the long-run accumulation of debt of the PAYG social security system. One grouping of possibilities allows sticking with the PAYG system and is denoted as parametrical changes. It involves changes in the percentage of wages to be contributed to the PAYG, the age of retirement or the way benefits are calculated ^[8]. Another one is to lower the state's future liabilities versus the current generation of contributors into the PAYG by lowering contributions made by current working population; this in turn requires alternative way of financing today's pensions.

Full reliance on parametrical changes is criticised on various grounds, in the first place, the parametrical changes alone are said to be ineffective in sustaining the pension system ^[2, 8]. However, the availability of such an option can help to alleviate the costs associated with the fall of contributions into the PAYG.

The path chosen is a shift from a PAYG system to a partially funded pension system, and it's worth noticing that this is not a logical consequence of the unsustainability of the PAYG system discussed above. The 2nd pillar consists in accumulating 5% of gross wages of participants in pension funds, of those 5%, 3% are redirected from the PAYG and 2% are an additional contribution.

The analysis of the 2nd pillar of the pension system using overlapping generations model [8] from the perspective of year 2004 shows that the contraction of contributions to the PAYG (included in adoption of the 2nd pillar) does reverse the development trend of PAYG debt, moderating its growth at the beginning and further lowering it. Most of the assumptions of the model if are not realistic today, do not seem to influence the reform's ability to sustain the pension system with time. Nevertheless, there is (at least) one assumption which appears to be very

significant for sustaining the PAYG balance, and this is the assumption of compulsory saving for all the workers of 40 or younger.

In the present system, participation in the 2nd pillar is voluntary for persons of 35 or younger: one can freely decide whether to be in, and cannot leave once in. The percentage of people who decide to take off a part of what is to create the state's future liabilities is to determine the success of the reform. In the extreme case of zero response of the private agents the reformed pension system will be in effect equivalent to one without the 2nd pillar. In the favorable extreme case of 100% participation the 2nd pillar will work as if it were compulsory, and will possess its full power to sustain the PAYG debt in the long run. What share of population will end up participating is a matter of rational decision-making, and so the success of the reform is indeed dependant on how many people will find the 2nd pillar beneficial.

3. Participation in the 2nd pillar. A little drawback of the reform.

A rational agent with no risk aversion and perfect foresight, which faces no political risk, decides on participation in the second pillar of the pension system in the study by Schneider and Šatava (2012) [11]. The decision is made based on the comparison between net present values (NPV) of all the future cash flows under the PAYG alone and those under the PAYG + the 2nd pillar.

The corresponding NPVs are calculated conditional on the income and the age of an agent. This allows the authors to compare the outcomes for agents with different characteristics. The authors find that the PAYG + 2nd pillar option is the more beneficial compared to the sole PAYG the higher is income and the lower is the age of an agent; and vice-versa, the lower the income, the higher the age of an agent, the higher is the NPV of PAYG-alone option. Similar results, though with non-linear dependence of participation on age were obtained by the study by Janský (2013) [6], who considered the data on persons insured through the 3d pillar of the pension system, noting resemblance between the 2nd and the 3d pillar. The results of Schneider and Šatava imply that, by NPV, opting for the PAYG +

2nd pillar will pay for about 50% of male population and about 30% of female population of Czech republic.

It is useful to think of age and low income as of elements preventing agents from joining the 2nd pillar. The impact of age will fade away at the point of time when each non-retiree agent will have had a chance to choose the 2nd pillar when young. Unlike age, income, presumably, will not lose its influence on agents' decisions with time. This may imply that there always will remain a portion of population reliant on PAYG only. The question is how significant this portion will be; it is obvious that the percentage of population insured by means of PAYG + 2nd pillar is not constant through time, and to predict the development of PAYG balance it is necessary to take this into account.

In reality, sales of the 2nd pillar insurances are by far much below the expected level.

4. The funded pillar, the annuity markets, and the disincentives of the 2nd pillar.

The 2nd pillar is not wholly logical means of gaining sustainability of the PAYG. Indeed, a portion of PAYG contributions could be withdrawn without being placed into a pension fund. However, the funded pillar is established by the PAYG's side, and reasons for doing this are presented as follows.

The final report of the II Bezděk commission (2010) [2] enumerates four goals to be achieved by a pension reform; beyond the system's sustainability, there are also its higher diversification, more even distribution of burden between generations, and greater equality. The establishment of a funded pillar is said to be inevitable for higher diversification and equality. There can be no doubt that diversification is reached through setting up the 2nd pillar of the pensions system, it also apparently capable of installing more intergenerational equality.

What kind of a funded pillar it is? The funds are privately managed by pension companies, are subject to regulation and are supervised by the central bank and the Ministry of Finance ^[10]. Thus, for certain individuals, the existence of the

pillar provides an incentive to consume a particular kind of product which is supplied by firms, the characteristics of the product are determined by legislation, and additionally, consumption cannot be stopped once started.

This can change the situation in the financial markets. In general, setting up a funded pillar leads to growth of the annuity market, shifting demand upwards. Possibly, this leads to some loss of efficiency of companies as compared to annuity markets prior to the reform. In spite of an explicit statement that supervisors do not mean to engage in bailing out pension companies “at all costs” ^[10], it is plausible that those companies will be exposed to moral hazard. After all, from the government's point of view, pensions of the elderly are at stake, and ageing population means that the median voter is ageing.

There is one more important feature of the funded pillar of the pensions system. 2% of gross wage are necessarily added from the disposable income of an individual to the 3% redirected from the PAYG. Those play an important role in the decision making of private agents. 2% of wage carry forgone opportunities, because potentially, the cash could be more profitably invested elsewhere.

The analysis by Schneider and Šatava (2012) discussed above shows that 2nd pillar + PAYG is certain to be more beneficial for certain citizens than the PAYG only. But the net present value analysis is blind to other opportunities which are open for the 2% of gross wage, should they remain in the disposable income. In the NPV context, any income not invested in the funds of the second pillar and not paid to the PAYG system can be thought of as entailing zero cash flows, equivalently, in an algebraic sense, as being invested at the interest rate corresponding to the discount rate used. Then in the NPV calculation outflows and inflows for any investments other than into the pension system cancel out and the investment has zero net present value. For the NPV method to favor the 2nd pillar + PAYG over the PAYG alone, it is enough that, roughly speaking, the 2% yield at least something.

Now it is evident that there can exist investment opportunities outside the pension system which result in positive net present value, outperforming the 2nd pillar in the NPV sense. A rational agent will opt for such investments as far as they are available, and remain in the PAYG alone. So, for some individuals, the funded pillar seems to be a disincentive to redirect a part of their PAYG contributions and would induce such agents to keep making full contributions instead, which is inconsistent with the goal of PAYG's sustainability.

Another problem is in the way the decision-making is distorted by the one-way entrance mechanism into the 2nd pillar. An individual does not actually make a choice between the yields of the pension fund versus those of saving independently. Since for individuals there is no way back once they have agreed to participate in the 2nd pillar, an individual has to make a decision on participation not only on the grounds of the payout of alternative investments of the 2%, but also based on the consideration that there's a limited period of time given and the decision is final.

In the final report of the II Bezděk commission (2010), it is proposed to make the 2nd pillar universally compulsory for the whole population younger than 40 years, where they will redirect 3% of their gross wages, which were initially paid to the PAYG. So, whatever costs may be incurred, they will have no power to affect participation in the 2nd pillar because it is obligatory.

5. Conclusion.

Above there was made an attempt to look at the creation of the 2nd pillar from a position of a critic. Some defects have been identified.

One of them is the 2nd pillar being unattractive for specific kinds of rational agents and potentially inducing them to choose a second-best investment option. Another is due to this unattractivity limiting the number of participants and thus complicating the improvement of the PAYG balance, which in turn means jeopardizing well-being of retirees. Unattractivity also owes its impact to the

voluntary nature of the pillar. The reform has an effect on the supply side of the private pensions market in the form of moral hazard.

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АКТУАЛЬНЫЕ ПРОБЛЕМЫ СОЦИАЛЬНОЙ РАБОТЫ И СПОСОБЫ ИХ РАЗРЕШЕНИЯ

Конец XX века стал переломным периодом не только для политической системы России, но и для социальной работы как профессии. В 1991 году социальная работа появилась в перечне профессий. Можно сказать, что с этого момента начало развиваться принципиально новое, для нашего государства, направление решения социальных проблем.

Социальная работа – профессия, важность которой в зарубежных странах признали гораздо раньше, чем в России. Уже в конце 19 века в Европе и Америке активно развивались школы социальной работы, подготавливающие специалистов, в обязанности которых входило «лечение» социальных проблем человека, точнее, помощь в их «лечении». Россия в этом плане сильно отставала от европейских стран. Однако нельзя утверждать, что социальной работы в тот период развития нашего государства не было вовсе.

В силу особенности менталитета русского народа и православия, помощь страждущему всегда считалась долгом каждого, а также деянием, которое принесёт совершившему его спасение души. Поэтому широкий размах на Руси и в период существования Российской империи получила